

**CALIFORNIA'S GUIDELINES FOR
UNDERWRITING AND ISSUANCE OF DEBT**

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I. Mission Statement

- ✓ First and foremost, to serve the people of the State of California.
- ✓ To achieve the lowest borrowing costs on California bonds.
- ✓ To ensure that investments are safe, liquid and secure and to enhance rates of return within this framework
- ✓ To promote development of small businesses using innovative financing methods.
- ✓ To establish policies and guidelines for participation in State financings.
- ✓ To hold participants accountable to such policies.
- ✓ To reward adherence and good performance with continued participation.
- ✓ To comply with applicable State laws.
- ✓ To explore and implement new ideas when prudent and consistent with the statements listed above.
- ✓ And thus, protect the dollars taxpayers have entrusted to the State of California.

II. OVERVIEW

- * The State Treasurer sells bonds for the State of California and other issuers such as the California Educational Facilities Authority, the California Health Facilities Financing Authority, the California Industrial Development Financing Advisory Commission, the California Pollution Control Financing Authority, the California School Finance Authority, the California Economic Development Finance Authority, the California Infrastructure and Economic Development Bank and other State Departments.
- * This guide contains the policies and procedures that govern all sales involving the State Treasurer's Office, including competitive sales, STO negotiated sales and sales in which the State acts as Agent for Sale.
- * Underwriters performing services on these sales:
 - * must comply with the Basic Rules for Participation listed in Section III.
 - * will be expected to perform at a level which provides maximum benefit to the State.
- * To acknowledge good performance and build accountability into the selection process, a post-financing review or evaluation will be conducted within 30 days of the close of each bond sale. The performance of the book-running senior manager and syndicate and selling group members will be evaluated and the results used as a selection tool in structuring underwriting teams for subsequent transactions and for forming subsequent pools.
- * All other things being equal, the Treasurer will give priority to participants with a sales and trading desk located in California for the sale of California bonds.
- * The Treasurer, in his sole discretion, reserves the right to remove any participant from any State transaction or underwriting pool at any time for substandard performance or failure to abide by the Treasurer's policies.
- * The STO actively manages each phase of each financing. All decisions related to each transaction are subject to the STO's approval.
- * Questions regarding the policies and procedures outlined herein should be directed to Steve Spears, Deputy State Treasurer, (916) 653-2995, 915 Capitol Mall, Room 110, Sacramento, California, 95814 or Donna K. Lucas, Director, Public Finance Division, (916) 653-2903, 915 Capitol Mall, Room 280, Sacramento, California, 95814.

III. BASIC RULES FOR PARTICIPATION

A. Professional Conduct

1. All participants shall maintain the highest standards of professional conduct at all times.
2. MSRB Rules, including Rule G-37, shall be followed at all times in the underwriting of bonds.
3. The STO expects underwriters to assist the Treasurer in achieving his objectives as set forth in the Mission Statement of the CALIFORNIA GUIDE.
4. All participants shall make cooperation with State staff and related parties their highest priority.

B. Minimum Qualifications

All firms that serve as underwriters on State financings must meet the following qualifications at all times:

1. The firm must maintain minimum net capital of \$100,000.
2. The firm must hold and maintain all licenses and registrations required by applicable federal and state laws for businesses offering underwriting or investment banking services. All licenses and registrations must be current and in good standing with each of the following:
 - a the U.S. Securities and Exchange Commission (SEC);
 - b the National Association of Securities Dealers (NASD);
 - c the California Department of Corporations; and,
 - d for Target Business Enterprise (TBE) firms, the State Treasurer's Office, as defined by applicable law.
3. In addition, the firm must have at least one full-time professional supervisory employee with a NASD Series 53 license (Municipal Securities Principal).

IV. STO NEGOTIATED SALES

A. Introduction

1. The STO expects underwriters to participate in a valuable and significant way with respect to the structuring and pricing of the issue, sales performance and various other aspects of the financing.
2. Underwriters will be expected to make themselves available to participate, when requested, in informational and other meetings prior to the issuance of bonds.
3. Underwriters will be expected to cooperate fully with the book-running senior manager in a way that provides maximum benefit to the State.
4. The book-running senior manager is responsible for developing a time and responsibility schedule that will allow for the timely and successful completion of the financing. The time frames set forth in the CALIFORNIA GUIDE are to be used as guidelines in this process.

B. Syndicate Selection

The State Treasurer will exercise sole authority for selecting underwriters for negotiated sales of the State Public Works Board, state joint powers authorities, various state agencies and other entities subject to Government Code Sections 5700 through 5703. Except as described below, underwriters shall only be chosen from previously selected pools and selection shall be based on several criteria including, but not limited to, proposals submitted in response to RFQs, post-sale evaluations and performance on previous sales.

The State Treasurer may select an underwriting team by means other than as described above upon a written finding by the State Treasurer that extraordinary market conditions do not allow enough time to comply with these policies without risking financial detriment to the State.

C. Agreement Among Underwriters

The AAU must include the liability assignments referred to in item IV.D., the priority of orders for purposes of allocation and the takedown designation policy described in item IV.G.5 below. The book-running senior manager is responsible for ensuring that the AAU complies fully with the CALIFORNIA GUIDE. The book-running senior manager must provide a copy of the AAU to each of the syndicate members. Each syndicate member must review the terms and conditions set forth in the AAU and return a signed copy to the book-running senior manager prior to the day of pricing.

D. Liability

1. Prior to the day of pricing, the book-running senior manager must provide to the STO for review and approval a recommended liability assignment for each syndicate member. Upon approval by the STO, the liability assignments must be incorporated into the AAU by the book-running senior manager.
2. As a general rule, liability assignments must be commensurate with the underwriting abilities of the syndicate members to whom they are assigned.

E. Fees and Expenses

The STO reserves the right to review and approve all fees and expenses and request their substantiation. Any excess funds raised beyond those required to meet issue expenses will be returned to the STO.

1. The expense component of the underwriting spread must be finalized by the book-running senior manager and approved by the STO prior to the day of pricing. Computer expenses and syndicate member expenses will only be permitted with the prior approval of the STO. An estimate of the expense component must be provided to the STO by the book-running senior manager no later than one week prior to the day of pricing.
2. In general, the STO does not reimburse the book-running senior manager for clearance fees except for the Depository Trust Company ("DTC") charge on issues that are registered in book-entry form only. Any other clearance reimbursement must be approved by the STO prior to the day of pricing. The STO does not reimburse the book-running senior manager for MSRB, PSA and Cal-PSA expenses.
3. There will be no consideration of an underwriting risk component of the underwriting spread until after the order period closes. At that time, the STO and the book-running senior manager will review the book of orders and discuss the need for including underwriting risk in the underwriters' spread for any unsold bonds. There will be no negotiation of underwriting risk after the verbal award has been given by the STO to the syndicate. Any underwriters' risk component must be approved by the STO.
4. The management fee will be distributed to the managers based on their relative contribution to the development and implementation of the financing plan. When the syndicate has been selected, the book-running senior manager shall submit a proposal for the STO's approval on the investment banking work to be performed by the syndicate. The performance of the syndicate on this work will help determine the management fee distribution.
5. Proposed takedowns for all maturities must be included as part of the proposed pricing terms faxed by the book-running senior manager to the STO prior to the pre-pricing conference call. All takedowns are subject to review and approval by the STO.

6. The STO expects the book-running senior manager to act as its agent in the collection of additional costs of issuance for such services as official statement printing and ratings. In the case of official statement printing, the book-running senior manager is responsible for obtaining printing bids and keeping the printing costs within the bid price agreed to by the STO. An estimate of these additional costs of issuance must be provided to the STO for review and approval one week prior to the day of pricing.
7. The STO expects the book-running senior manager to keep the underwriters' expense items and costs of issuance to an absolute minimum.

F. Use of a Selling Group

The book-running senior manager will discuss with the STO the advantages and /or disadvantages of using a selling group for the financing. If the STO decides to use a selling group, the book-running senior manager will provide a list of recommended selling group members, subject to STO approval, at least two weeks prior to the day of pricing.

G. Retention and Takedown Designation Policies

1. The book-running senior manager will discuss the use of retention with the STO at least one week prior to the day of pricing. During this discussion, the book-running senior manager will provide to the STO proposed retention amounts by maturity for each syndicate member. Retention should not be limited to term bonds.
2. If the use of retention is advised and agreed upon by the STO, the book-running senior manager will make retention available to the syndicate at least one week prior to the day of pricing.
3. After the original retention levels have been made available and if circumstances warrant, the book-running senior manager should consider increasing the retention available to syndicate members. In such a case, the book-running senior manager should increase retention with the goal of making as much available to syndicate members as possible, without it having a negative impact on the financing.
4. Any change in retention to any syndicate member at any time must be approved by the STO prior to its release.
5. At least one week prior to the day of pricing, the book-running senior manager must provide to the STO a proposed priority of orders for purposes of allocation and a proposed policy for the designation of takedown on net designated orders. The policy must include a maximum percentage of takedown to be designated to any one firm, as well as a minimum number of firms to be designated on any one net designated order. It is anticipated that the selling group will be allowed to place net designated orders on all STO negotiated sales. Upon the approval of the STO, the priority of orders and the designation policy must be included in the AAU and the preliminary pricing wire.

6. Any takedown not designated on net designated orders within one week of the day of pricing will be distributed among the syndicate members according to their respective liability assignments.
7. Changes to the takedown designation policy must be approved by the STO and communicated by wire to syndicate members with a copy faxed to the STO.

H. Discussion of Marketing Plan

Prior to the scheduled release of retention, the book-running senior manager must initiate a conference call with the STO to review current market conditions and the following items previously provided to the STO by the book-running senior manager: (a) liability assignments; (b) retention assignments; (c) priority of orders for purposes of allocation; (d) policy covering the distribution of takedown on net designated orders; (e) estimate of the expense component of the underwriting spread; and (f) estimate of other costs of issuance. These items are subject to the approval of the STO.

I. Pricing Procedures

1. Prior to the pre-pricing conference call (one business day prior to the day of pricing) between the STO and the syndicate, the book-running senior manager must fax to the STO the proposed pricing terms. This is to allow for thorough evaluation of the proposed pricing terms by the STO. The list of pricing terms provided to the STO must include principal amounts, coupons, yields, prices, optional redemption features, concessions and additional takedowns per maturity.
2. One business day prior to the day of pricing, the book-running senior manager must initiate a pre-pricing conference call with the STO and syndicate to discuss the proposed pricing terms, order period, underwriting spread components, market conditions and other necessary pricing information.
3. Prior to its release, the preliminary pricing wire is subject to the approval of the STO. The wire must include, among other things, all pricing terms agreed upon by the STO, book-running senior manager and syndicate during the pre-pricing conference call, and the priority of orders and takedown designation policy. A draft of the preliminary pricing wire must be faxed to the STO upon the completion of the pre-pricing conference call.
4. On the morning of the day of pricing (prior to the start of the order period), if the book-running senior manager believes that a change in any of the pricing terms approved on the pre-pricing conference call (such as coupons, yields, prices, optional redemption features, concessions and additional takedowns per maturity) is required, the book-running senior manager must initiate a conference call with the STO and syndicate to review the proposed pricing terms and any suggested changes in light of current market conditions. Moreover, the STO may require the book-running senior manager to initiate a conference call prior to the start of the order period for large issues and/or during turbulent market conditions.

5. Any change in the initial pricing terms on any maturity during the order period must be approved by the STO.
6. The book-running senior manager must track the receipt of orders broken down by maturity, amount, type and firm. Status reports on the pricing, including total orders received, broken down by maturity, amount, type and firm, may be requested by the STO at any time during the order period. The Dalnet "Orders and Allotments by Maturity" report is an acceptable report for these purposes.
7. The book-running senior manager must receive approval from the STO before terminating any order period on any maturity before the previously determined close of the order period.
8. At the close of the order period, the book-running senior manager must provide in writing and in a format acceptable to the STO, a listing of total orders received broken down by maturity, amount, type and firm, through the end of the order period. At this time the book-running senior manager must also make a concerted effort to provide the STO with the true interest cost of the issue. After this information has been provided to the STO, and at a previously agreed upon time, the book-running senior manager must initiate a pricing conference call with the STO and syndicate to review the book of orders and negotiate any change in pricing terms (e.g., coupons, yields, prices, optional redemption features, concessions and additional takedowns per maturity) or other necessary pricing information, such as underwriting spread components, prior to the verbal award of the bonds to the syndicate by the STO.
9. A complete set of final computer runs must be provided to the STO before a representative of the STO signs the bond purchase agreement. The computer runs must include, but not necessarily be limited to, a table of sources and uses of funds, a summary of assumptions and results (including significant dates, underwriting spread breakdown, ratings, true interest cost, etc.) and any additional tables that include coupons, yields, prices, takedowns, principal amounts and related debt service by maturity.
10. The book-running senior manager and underwriters' counsel are responsible for coordinating the execution of the bond purchase agreement and the delivery of the good faith deposit to the STO.
11. The STO reserves the right to postpone the pricing if the above pricing procedures (items IV.I.1 - IV.I.10) are not strictly followed.

J. Allocation of Bonds

The book-running senior manager will be responsible for ensuring that the overall allocation of bonds meets the STO's goals of: (a) obtaining the best price for the issue; (b) providing firms with allocations that are commensurate with work performed (i.e., the type and amount of orders submitted); and (c) complying with applicable law regarding TBE firm participation. The STO reserves the right to monitor the order-taking process and to review bond allocations prior to their release.

K. Post-Sale Support

1. In accordance with MSRB rule G-12(k), sales credits designated by a customer must be distributed within 30 days after the delivery of the bonds to the customer.
2. In accordance with MSRB rule G-12(j), final settlement of a syndicate account and distribution of any profit due to members must be made within 60 days of delivery of the syndicate's bonds.
3. The syndicate agrees to comply with any syndicate rules prohibiting the selling of bonds below the public offering price (less the full takedown) prior to the release of syndicate restrictions. In addition, each syndicate member agrees to inform the STO of any firm in noncompliance with such syndicate rules.
4. For seven business days following the release of syndicate restrictions, the syndicate and selling group agree to inform the STO of any firm significantly lowering the price of the bonds in the secondary market below market levels.
5. The book-running senior manager must be prepared to provide the STO on an ongoing basis for at least seven business days following the release of syndicate restrictions secondary market price levels, unsold balances, and the level of trading activity of the bonds.
6. The STO expects the syndicate to provide liquidity in the secondary market for the issue on an ongoing basis.

L. Post-Sale Evaluation

In keeping with the STO's policy of acknowledging good performance and building accountability into syndicate participation, the STO will conduct post-sale evaluations of the syndicate and selling group to ensure policies are adhered to and performance is documented. The evaluations will consider, among other things, the fairness of the price and whether optimal distribution structures were developed that ensured the best price; orders placed; and, contributions of syndicate and selling group members to meeting the Treasurer's debt financing goals.

1. The book-running senior manager must also provide to the STO a final pricing book. The final pricing book must include, but not necessarily be limited to, the following information: the time and responsibility schedule; the distribution list; a discussion of market conditions leading up to and during the pricing; the final pricing wire; comparable issues in the market; media coverage; rating agency credit reports; a full set of final computer runs; a list of selling group members; a table identifying orders and allocations; a table identifying management fee and liability; a table identifying takedown and designation dollars by firm; and a table identifying designations on net designated orders. The final pricing book must be provided to the STO by the day of closing.

2. The entire syndicate, including the book-running senior manager, must provide to the STO in a timely manner all necessary information required to carry out the post-sale evaluation. This information may include, but not be limited to, a completed post-sale evaluation survey distributed by the STO at the bond sale kick-off meeting. *The completed evaluation survey will be considered as part of the confidential files of the STO, and will not be available for public review.* Surveys must be returned to the STO by the closing of the bond sale.
3. As part of the post-sale evaluation process, the STO reserves the right to solicit from the syndicate and selling group comments on the fairness of the order-taking and bond allocation processes.
4. The book-running senior manager must also provide to the STO a completed TBE Report no later than ten days after the day of closing.
5. The book-running senior manager must provide the STO with a comparison of estimated and actual underwriter expenses. Any unused expenses must be returned in the form of a check payable to the STO within 60 days of the sale date.

The Staff comments and comments provided by others will be used in the evaluation and selection of underwriting firms for future syndicates and future underwriting pools.

V. STO COMPETITIVE SALES

Bidders on State competitive sales are required to comply with the provisions in the respective Notices of Sale in submitting bids and on the closing of the bond issues.

The successful bidder will generally be required to take custody of the bonds from the Treasurer and take responsibility, at such bidder's cost and risk, for delivery of the bonds to DTC, in New York, New York, in a timely manner so that DTC is prepared to settle the issuance of the bonds at the commencement of business on the day of closing. Payment for the bonds must be made simultaneously with such settlement on the day of closing and must be in funds immediately available in Sacramento, California. The manner of payment must be acceptable to the State Treasurer.

The State Treasurer may reject any bid on any competitive sale not conforming to the related Notice of Sale or may reject all bids. The State Treasurer also reserves the right to waive any irregularity or informality in any bid.

VI. STO AS AGENT FOR SALE

A. Introduction

The STO serves as Agent for Sale on financings of, among others, the California Educational Facilities Authority, the California Health Facilities Financing Authority, the California Industrial Development Financing Advisory Commission, the California Pollution Control Financing Authority, the California School Finance Authority, the California Economic Development Financing Authority, the California Infrastructure and Economic Development Bank and other State Departments.

As written, this Section (VI) assumes that the bond issue in question is issued by one of the entities listed in the above paragraph.

For other issuers for which the STO serves as agent for sale, all decisions are subject to review and approval by the STO. In addition, references to "Authority" will mean the Authority and the STO.

1. The Authority expects underwriters to assist the Treasurer in achieving his objectives as set forth in the Mission Statement of the CALIFORNIA GUIDE.
2. The Authority expects underwriters to participate in a valuable and significant way with respect to the structuring and pricing of the issue, sales performance and various other aspects of the financing.
3. Underwriters will be expected to make themselves available to participate, when requested, in informational and other meetings prior to the issuance of bonds.
4. Underwriters will be expected to cooperate fully with the book-running senior manager in a way that provides maximum benefit to the State and Borrowers.
5. The book-running senior manager is responsible for developing a time and responsibility schedule that will allow for the timely and successful completion of the financing. The time frames set forth in the CALIFORNIA GUIDE are to be used as guidelines in this process.

The following guidelines, while specifically applicable to fixed rate bond sales, generally apply to all issues by the entities listed above. Variable rate, commercial paper, venture capitals, qualified institutional buyers, private placement and other structures may differ and variations to the guidelines are subject to approval by the Authority.

B. Syndicate Selection

Generally, the syndicate will be selected by the Borrower. However, the Authority and STO reserve the right to review all syndicate appointments and remove syndicate members.

1. Syndicate members selected by the Borrower need not be members of the negotiated underwriting pools.
2. STO selection and recommendations for underwriters will be from the negotiated underwriting pools.

C. Agreement Among Underwriters

The AAU must include the liability assignments referred to in item VI.D., the priority of orders for purposes of allocation and the takedown designation policy described in item VI.G.6 below. The book-running senior is responsible for ensuring that the AAU complies fully with the CALIFORNIA GUIDE. The book-running senior manager must provide a copy of the AAU to each of the syndicate members. Each syndicate member must review the terms and conditions set forth in the AAU and return a signed copy to the book-running senior manager prior to the day of pricing.

D. Liability

1. Prior to the day of pricing, the book-running senior manager must provide to the Authority for review and approval a recommended liability assignment for each syndicate member. Upon approval by the Authority, the liability assignments must be incorporated into the AAU by the book-running senior manager.
2. As a general rule, liability assignments must be commensurate with the underwriting abilities of the syndicate members to whom they are assigned (see VI.G. 1).
3. Liability assignments shall be reviewed and approved by the STO and the Authority.

E. Fees and Expenses

The STO and the Authority reserve the right to review and approve all fees and expenses and request their substantiation.

1. When possible, proposed underwriting spread components must be submitted with the financing application for approval by the Authority. The spread component, in any event, MUST be finalized and approved by the Authority and STO at least one day prior to pricing. Computer expenses and syndicate member expenses will only be permitted with the prior approval of the Authority.
2. In general, the Authority does not reimburse the book-running senior manager for clearance fees except for the Depository Trust Company ("DTC") charge on issues that are registered in book-entry form only. Any other clearance fee reimbursement must be approved by the Authority prior to the day of pricing. The Authority does not reimburse the book-running senior manager for MSRB, PSA and Cal-PSA expenses.
3. There will be no consideration of an underwriting risk component of the underwriting spread until after the order period closes. At that time, the Authority and the book-running

- senior manager will review the book of orders and discuss the need for including underwriting risk in the underwriters' spread for any unsold bonds. There will be no negotiation of underwriting risk after the verbal award has been given by the Authority to the syndicate. Any underwriters' risk component must be approved by the Authority.
4. The management fee will be distributed to the managers based on their relative contribution to the development and implementation of the financing plan. When the syndicate has been selected, the book-running senior manager shall submit a proposal for the Authority's approval on the investment banking work to be performed by the syndicate. The performance of the syndicate on this work will help determine the management fee distribution.
 5. Proposed takedowns for all maturities must be included as part of the proposed pricing terms faxed by the book-running senior manager to the Authority prior to the pre-pricing conference call. All takedowns are subject to review and approval by the STO and the Authority.
 6. The Authority expects the book-running senior manager to act as its agent in the collection of additional costs of issuance for such services as official statement printing and ratings. In the case of official statement printing, the book-running senior manager is responsible for obtaining printing bids and keeping the printing costs within the bid price agreed to by the Authority. An estimate of these additional costs of issuance must be provided to the Authority for review and approval one week prior to the day of pricing.
 7. The Authority expects the book-running senior manager to keep the underwriters' expense items and costs of issuance to an absolute minimum.

F. Use of a Selling Group

The book-running senior manager will discuss with the Authority the advantages and/or disadvantages of using a selling group for the financing. If the Authority decides to use a selling group, the book-running senior manager will provide a list of recommended selling group members, subject to Authority and STO approval, at least two weeks prior to the day of pricing.

G. Syndicate Participation Percentages, Retention and Takedown Designation Policies

1. Syndicate participation percentages shall be assigned by the Authority and the STO, and shall be commensurate with the liability assignments discussed in item VI. D.
2. The book-running senior manager will discuss the use of retention with the Authority at least one week prior to the day of pricing. During this discussion, the book-running senior manager will provide to the Authority proposed retention amounts by maturity and by syndicate participation percentage for each syndicate member.
3. If the use of retention is advised and agreed upon by the Authority and the STO, the book-running senior manager will make retention available to the syndicate at least one week prior to the day of pricing.

4. After the original retention levels have been made available and if circumstances warrant, the book-running senior manager should consider increasing the retention available to syndicate members. In such a case, the book-running senior manager should increase retention with the goal of making as much available to syndicate members as possible, without it having a negative impact on the financing.
5. Any change in retention to any syndicate member at any time must be approved by the Authority and the STO prior to its release.
6. At least one week prior to the day of pricing, the book-running senior manager must provide to the Authority a proposed priority of orders for purposes of allocation and a proposed policy for the designation of takedown on net designated orders. The policy must include a maximum percentage of takedown to be designated to any one firm, as well as a minimum number of firms to be designated on any one net designated order. It is anticipated that the selling group will be allowed to place net designated orders on all Authority negotiated sales. Upon the approval of the Authority and the STO, the priority of orders and the designation policy must be included in the AAU and the preliminary pricing wire.
7. Any takedown not designated on net designated orders within one week of the day of pricing will be distributed among the syndicate members according to their respective liability assignments.
8. Changes to the takedown designation policy must be approved by the Authority and the STO and communicated by wire to syndicate members with a copy faxed to the Authority.

H. Discussion of Marketing Plan

Prior to the scheduled release of retention, the book-running senior manager must initiate a conference call with the Authority to review current market conditions and the following items previously provided to the Authority by the book-running senior manager: (a) liability assignments; (b) retention assignments; (c) priority of orders for purposes of allocation; (d) policy covering the distribution of takedown on net designated orders; (e) estimate of the expense component of the underwriting spread; and (f) estimate of other costs of issuance. These items are subject to the approval of the Authority and the STO. For unique, innovative financings, the book-running manager must engage the Authority and STO in the planning stage of the financing. If this is not possible, the Authority and STO must be brought in as soon as the decision of seeking financing through the Authority is made.

I. Pricing Procedures

1. Prior to the pre-pricing conference call (one business day prior to the day of pricing) between the STO, Authority, Borrower and the syndicate, the book-running senior manager must fax to the Authority the proposed pricing terms. This is to allow for thorough evaluation of the proposed pricing terms by the STO, Authority and Borrower. The list of pricing terms provided must include principal amounts, coupons, yields, prices, optional redemption features, concessions and additional takedowns per maturity.
2. One business day prior to the day of pricing, the book-running senior manager must initiate a pre-pricing conference call with the STO, Authority, Borrower and syndicate to discuss the proposed pricing terms, order period, underwriting spread components, market conditions and other necessary pricing information.
3. Prior to its release, the preliminary pricing wire is subject to the approval of the Authority and STO. The wire must include, among other things, all pricing terms agreed upon by the STO, Authority, book-running senior manager and syndicate during the pre-pricing conference call, and the priority of orders and takedown designation policy. A draft of the preliminary pricing wire must be faxed to the Authority upon the completion of the pre-pricing conference call.
4. On the morning of the day of pricing (prior to the start of the order period), if the book-running senior manager believes that a change in any of the pricing terms approved on the pre-pricing conference call (such as coupons, yields, prices, optional redemption features, concessions and additional takedowns per maturity) is required, the book-running senior manager must initiate a conference call with the STO, Authority, Borrower and syndicate to review the proposed pricing terms and any suggested changes in light of current market conditions. Moreover, the Authority may require the book-running senior manager to initiate a conference call prior to the start of the order period for large issues and/or during turbulent market conditions.
5. Any change in the initial pricing terms on any maturity during the order period must be approved by the STO or Authority.
6. The book-running senior manager must track the receipt of orders broken down by maturity, amount, type and firm. Status reports on the pricing, including total orders received, broken down by maturity, amount, type and firm, may be requested by the STO or Authority at any time during the order period. The Dalnet "Orders and Allotments by Maturity" report is an acceptable report for these purposes.
7. The book-running senior manager must receive approval from the STO and the Authority before terminating any order period on any maturity before the previously determined close of the order period.
8. At the close of the order period, the book-running senior manager must provide in writing and in a format acceptable to the Authority and the STO, a listing of total orders received

broken down by maturity, amount, type and firm, through the end of the order period. At this time the book-running senior manager must also make a concerted effort to provide the Authority and the STO with the true interest cost of the issue. After this information has been provided to the Authority, and at a previously agreed upon time, the book-running senior manager must initiate a pricing conference call with the STO, Authority, Borrower and syndicate to review the book of orders and negotiate any change in pricing terms (e.g., coupons, yields, prices, optional redemption features, concessions and additional takedowns per maturity) or other necessary pricing information, such as underwriting spread components, prior to the verbal award of the bonds to the syndicate by the STO and Authority.

9. A complete set of final computer runs must be provided to the Authority and the STO before a representative of the STO signs the bond purchase agreement. The computer runs must include, but not necessarily be limited to, a table of sources and uses of funds, a summary of assumptions and results (including significant dates, underwriting spread breakdown, ratings, true interest cost, etc.) and any additional tables that include coupons, yields, prices, takedowns, principal amounts and related debt service by maturity.
10. The book-running senior manager and underwriters' counsel are responsible for coordinating the execution of the bond purchase agreement and the delivery of the good faith deposit to the STO.
11. The STO and Authority reserve the right to postpone the pricing if the above pricing procedures (items VI.I.1 - VI.I.10) are not strictly followed. For unique, innovative financings, the Authority and STO reserve the right to depart from the procedures listed above, and establish a process which would be beneficial to the financings.

J. Allocation of Bonds

The book-running senior manager will be responsible for ensuring that the overall allocation of bonds meets the STO's goals of: (a) obtaining the best price for the issue; (b) providing firms with allocations that are commensurate with work performed (i.e., the type and amount of orders submitted); and (c) complying with applicable law regarding TBE firm participation. The Authority and STO reserve the right to monitor the order-taking process and to review bond allocations prior to their release.

K. Post-Sale Support

1. In accordance with MSRB rule G-12(k), sales credits designated by a customer must be distributed within 30 days after the delivery of the bonds to the customer.
2. In accordance with MSRB rule G-12(j), final settlement of a syndicate account and distribution of any profit due to members must be made within 60 days of delivery of the syndicate's bonds.
3. The syndicate agrees to comply with any syndicate rules prohibiting the selling of bonds below the public offering price (less the full takedown) prior to the release of syndicate

- restrictions. In addition, each syndicate member agrees to inform the Authority of any firm in noncompliance with such syndicate rules.
4. For seven business days following the release of syndicate restrictions, the syndicate and selling group agree to inform the Authority of any firm significantly lowering the price of the bonds in the secondary market below market levels.
 5. The book-running senior manager must be prepared to provide the Authority on an ongoing basis for at least seven business days following the release of syndicate restrictions secondary market price levels, unsold balances, and the level of trading activity of the bonds.
 6. The Authority expects the syndicate to provide liquidity in the secondary market for the issue on an ongoing basis.

L. Post-Sale Evaluation

In keeping with the Authority's policy of acknowledging good performance and building accountability into syndicate participation, the Authority and the STO will conduct post-sale evaluations of the syndicate and selling group to ensure policies are adhered to and performance is documented. The evaluations will consider, among other things, the fairness of the price and whether optimal distribution structures were developed that ensured the best price; orders placed; and, contributions of syndicate and selling group members to meeting the Treasurer's debt financing goals.

1. The book-running senior manager must also provide to the Authority and the STO a final pricing book. The final pricing book must include, but not necessarily be limited to, the following information: the time and responsibility schedule; the distribution list; a discussion of market conditions leading up to and during the pricing; the final pricing wire; comparable issues in the market; media coverage; rating agency credit reports; a full set of final computer runs; a list of selling group members; a table identifying orders and allocations; a table identifying management fee and liability; a table identifying takedown and designation dollars by firm; and a table identifying designations on net designated orders. The final pricing book must be provided to the Authority by the day of closing.
2. The entire syndicate, including the book-running senior manager, must provide to the Authority in a timely manner all necessary information required to carry out the post-sale evaluation. This information may include, but not be limited to, a completed post-sale evaluation survey distributed by the Authority at the bond sale kick-off meeting. *The completed evaluation survey will be considered as part of the confidential files of the Authority, and will not be available for public review.* Surveys must be returned to the Authority by the closing of the bond sale.
3. As part of the post-sale evaluation process, the Authority and STO reserve the right to solicit from the syndicate and selling group comments on the fairness of the order-taking and bond allocation processes.

4. The book-running senior manager must also provide to the Authority a completed TBE Report no later than ten days after the day of closing.
5. The book-running senior manager must provide the Authority with a comparison of estimated and actual underwriter expenses. Any unused expenses must be returned in the form of a check payable to the Borrower within 60 days of the sale date.

These comments will be used by the STO and the Authorities when evaluating the qualifications of firms to be selected for future syndicates and future underwriting pools.

VII. GLOSSARY

- *Agreement Among Underwriters or AAU*: The contract establishing the underwriting syndicate formed to market the bonds. The AAU will include provisions covering the liability of each syndicate member, a description of order types, order priority, pricing of the bonds and requirements respecting a public offering. The AAU may contain a variety of other matters relating to trade practice and applicable rules of the MSRB.
- *Allocation*: The post-sale distribution of bonds among syndicate and selling group members.
- *Authority*: Refers to all entities for which the STO serves as Agent for Sale including the California Educational Facilities Authority, the California Health Facilities Financing Authority, the California Industrial Development Financing Advisory Commission, the California Pollution Control Financing Authority, the California School Finance Authority, the California Economic Development Finance Authority and California Infrastructure and Economic Development Bank and other State Departments.
- *Bond Purchase Agreement*: The contract between the syndicate and issuer setting forth the final terms, prices and conditions upon which the syndicate purchases a new issue.
- *Book-Running Senior Manager*: The manager that controls the book of orders for the transaction and is primarily responsible for the successful execution of the transaction.
- *Borrower*: A qualified entity for which financing through the Authority is arranged.
- *CEDFA*: California Economic Development Financing Authority and California Infrastructure and Economic Development Bank
- *CEFA*: California Education Financing Authority.
- *CHFFA*: California Health Facilities Financing Authority.
- *CIDFAC*: California Industrial Development Financing Advisory Commission.
- *CPCFA*: California Pollution Control Financing Authority.
- *CSFA*: California School Finance Authority
- *Good Faith Deposit*: Money required to be delivered to an issuer by the syndicate pursuant to the bond purchase agreement. The good faith deposit is generally provided in the form of a certified or cashier's check in an amount determined by the issuer.
- *Group Net Order*: An order for bonds submitted by a syndicate member in which the takedown is distributed to syndicate members according to their respective liability shares in the issue.
- *Liability*: The principal amount of securities to be underwritten by each member of the syndicate.

- *Managers*: The book-running senior manager and other members of the syndicate that are allotted a portion of the management fee. Managers typically undertake larger liability commitments in the account than do other syndicate members.
- *Member Order*: An order for bonds placed by a member of the syndicate where the bonds would be confirmed to that member at syndicate terms.
- *MSRB*: Municipal Securities Rulemaking Board.
- *Net Designated Order*: An order for bonds submitted by a syndicate or selling group member in which all or a portion of the takedown is to be credited to firms designated by the purchaser of the bonds according to the relative percentages designated by the said purchaser.
- *Participants*: Underwriting firms that participate in State financings.
- *Priority Order*: A retail or net designated order.
- *Retail Order*: An order for bonds placed by an individual or an order placed by a bank trust department or investment advisor for an individual.
- *Retention*: An amount of bonds which will be guaranteed to be available for sale by each member of the syndicate.
- *Selling Group*: A group of underwriters formed to aid in the distribution of the bonds in a bond financing. Selling group members do not assume liability in the financing.
- *State*: The State of California.
- *STO*: The State Treasurer's Office of the State of California.
- *Syndicate*: A group of underwriters formed to purchase and re-offer an issuer's bonds for sale to the public. Each syndicate member has a share in the liability of the issue.
- *Syndicate Participation Percentages*: A sale's participation goal for each syndicate member determined by the Authority and STO for Authority bond issues.
- *Target Business Enterprise or TBE Firms*: Firms owned by minorities, women or disabled veterans as defined by State law.
- *TBE Report*: Detailed bond sale information in a format prescribed by the STO to be filed with the STO by the book-running senior manager no later than ten days after the day of closing.
- *True Interest Cost*: The rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received on the closing date of the issue.
- *Underwriter*: A firm that structures, markets, purchases and/or trades municipal securities.